Trust Company Oklahoma

INVESTMENT PERSPECTIVES

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2024'S SURPRISES SHAPING 2025

Looking Back on 2024's Economic Resilience and Examining Key Economic Factors for 2025

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As we turn the calendar to a new year, we generally flip back through the previous year for guidance on what the next 12 months will bring and potential surprises to monitor. Roughly a year ago, with the S&P 500 ending 2023 at 4,770 (having returned 26% for the year), the average strategist year-end target for 2024 was 4,867, or just 2% higher.

With the S&P 500 having returned 25% in 2024, these forecasts proved wildly inaccurate. The U.S. economy "broke the rules" of the usual recessionary signals to produce above-trend economic growth, and the stock market rallied, fueled primarily by Fed rate cuts, the impact of artificial intelligence (AI), and the presidential election outcome. The past year was a stark reminder that even the most sophisticated models can be blindsided by unforeseen events.

What 2024 Says About 2025

Forecasters' consensus calls for 2024 to see below-trend economic growth and below-average equity returns were based on trying to overlay a typical business cycle on incoming U.S. data. Traditional recessionary signals indicating an economic slowdown due to tighter financial conditions aimed at bringing down inflation proved misleading.

Consensus forecasts were proven wrong as the year unfolded because the U.S. economy was not on a traditional business cycle path. The main forces behind this historically divergent path were the rise of AI, loosening financial conditions, increased immigration, and the ongoing U.S. budget deficit. The collective impact of these forces served to support disinflation while maintaining above-trend economic growth and above-average stock returns.

These forces are essential to remember in the coming year as they will continue to exert influence and, in doing so, help support the case for continued above-trend economic growth and positive returns on both sides of the fence for stocks and bonds.

What Lies Ahead for 2025

The U.S. economy's rule-breaking expansion looks set to continue into 2025 as many of the aforementioned forces that shaped the economy and markets last year remain in place. Despite the support of these forces, the main concern for the markets at this point might be complacency. The S&P 500 is currently trading at price-to-earnings levels that were only exceeded in the post-war era during the late 1990s. Considering this, it is hard to view the U.S. stock market as inexpensive and that much good news is not already priced in, with S&P 500 earnings growth forecast to expand 15% on top of record profit margins for 2025.

Based on this earnings outlook and current valuations, the consensus year-end target for 2025 of 6,780 for the S&P 500 would equate to approximately a 15% advance in stocks from the 2024 close of 5,881.

The absence of volatility is an additional concern, as the S&P 500 has turned in a lengthy period of low volatility, closing in on 300 days without a 10% correction versus the median of just 66 days.

However, the current high valuation and low volatility environment should continue into the new year as the U.S. economy expands with cooling inflation, the Fed

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MARKET RECAP

Stocks posted only their fifth consecutive yearly gain of 20% returns since 1927, with the S&P 500 returning 58% over the past two years. Bonds also turned in a positive annual return as the Fed continues to ease policy reflective of moderating inflation.

	Past 3 Months	Past 12 Months
S&P 500	3.4%	25%
EAFE (International)	-7.6%	3.8%

VIEWPOINT A Message From the Desk of Michael Hopper

Michael Hopper
CFP®, CTFA

President & Chief Executive Officer

As 2024 comes to a close, I am filled with optimism for the future of Trust Company of Oklahoma. This past year has been one of significant growth and achievement, a testament to the dedication and talent of our incredible team. We have persistently navigated challenges, enthusiastically embraced new opportunities, and consistently exceeded expectations.

This year also marked the retirement of **Debi Combs**, a beloved member of our Retirement Plan Services division. Debi's extensive knowledge and unwavering commitment to our clients made her an invaluable asset to our team. Her dedication and expertise will be deeply missed. We extend our sincerest gratitude for her 35 years of service and wish her all the best in her well-deserved retirement.

As we set new resolutions and strive for continuous improvement, I am delighted to recognize the outstanding contributions of several individuals with well-deserved promotions:

- **Joanna Murphy** to **Executive Vice President**
- **Melissa Taylor** to **Senior Vice President**
- **Taylor Jarrell** to **Vice President**
- **Baylor Cashmore** and **Joseph Mobley** to **Assistant Vice President**
- **Kelli Gernandt** and **Helen Gruver** to **Officer**

These promotions are a testament to their hard work, commitment, and exceptional performance. These individuals will continue to inspire and lead TCO excellently. We will carry the momentum of these successes into the new year, continuing to collaborate effectively and pushing the boundaries of what we can achieve together.

Looking ahead, we have much to celebrate. While some may seek luck in eating black-eyed peas or avoiding sweeping on New Year's Day, we at Trust Company of Oklahoma know that our true good fortune lies in our team's grit, determination, and unwavering dedication. We possess the talent, the drive, and the collaborative spirit to achieve extraordinary things.

Our purpose has always been to help generations of Oklahomans make informed decisions with their money, and our team is well-positioned to do just that. Let's embrace the new year, committed to exceeding all expectations.

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continues with nonrecessionary rate cuts, consumer spending remains resilient, and policies that help corporate earnings are enacted.

Despite this positive backdrop, investors should not lose sight of the fact that the most significant changes in asset prices tend to be driven by surprises.

Here are some potential surprises worth monitoring through 2025:

Despite this positive backdrop, investors should not lose sight of the fact that the most significant changes in asset prices tend to be driven by surprises.

Second Inflationary Wave

Though inflation has slowed meaningfully from the 2022 peak of 9%, history suggests a second wave often follows the first, with a lull of several years in between. Core inflation for the consumer price index (CPI) and personal consumption expenditures (PCE) remain "sticky" at around 3% and stopped falling meaningfully in the second half of 2024.

Reflecting on a strong jobs market and record consumer wealth, inflation related to services and housing has remained persistent.

Additionally, the Trump administration's proposed imposition of further tariffs and supply chain deglobalization pose challenges to returning to a stable inflationary environment.

It is unclear where the impetus for softer inflation will emerge without a more extensive economic slowdown.

U.S. DEFICIT BECOMES A BIGGER CONCERN

With U.S. government debt relative to the gross domestic product (GDP) having tripled over the past two decades, the U.S. is currently running an unprecedented peacetime fiscal deficit of 7% of GDP.

The Congressional Budget Office (CBO) projects publicly held debt to increase from $26 trillion at the end of 2023 to $48 trillion at the end of 2034, or about a 19% increase to 116% of GDP.

Additionally, if the 2017 Tax Cuts and Jobs Act tax cuts are extended, the CBO's estimate over the next decade would increase by $4.6 trillion.

"Bond vigilantes" may react unfavorably in 2025 if the incoming government enacts policies that exacerbate the fiscal outlook through demands for higher bond yields, which would place pressure on equity markets.

ANIMAL SPIRITS VS. REALITY

Popularized by the economist John Maynard Keynes, the term "animal spirits" in this context refers to the emotional and psychological elements that affect one's economic decision-making.

The release of animal spirits in the wake of Donald Trump's election win can be seen in the $130 billion of inflows into U.S. equity funds in the five weeks after the election (ranking in the 100th percentile relative to history), the S&P 500 rallying 5% in the same period, or the NFIB small

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S&P 500 Index Performance in Year 3 of Cyclical Bull Markets				
Bull Start	**Bull Survives Year 3?**	**Two Year % Change**	**Year 3 % Change**	**Comments**
6/13/49	Yes	59.0	13.1	Post-War boom, disinflation
9/14/53	No	98.1	4.9	Shallow recession 7/1953 - 5/1954
10/22/57	No	43.7	-5.9	Shallow recession 8/1957 - 4/1958
6/26/62	Yes	55.7	0.2	Three hikes 7/1963 - 12/1965
10/7/66	No	41.7	-10.2	Inflation returns, Fed reverses 8/1968 cut
7/24/84	Yes	61.0	30.0	Fed cuts 7 times 11/1984 - 8/1986
10/19/87	No	54.4	-10.0	Shallow recession 7/1990 - 3/1991
10/11/90	Yes	37.9	13.1	1994-1995 hikes ended in soft landing
10/9/02	Yes	44.8	5.6	.com recovery into housing bubble
3/9/09	No	95.1	3.9	ECB debt crisis and U.S. credit downgrade
10/3/11	Yes	52.7	17.2	ZIRP supported recovery from financial crisis
2/11/16	Yes	45.2	2.0	Hikes in late-2018 almost derailed bull
9/30/22	??	60.7	??	First cut on 9/18/2024
All Case Median		**54.4**	**4.4**	
Bull Survives Year 3 Median			**13.1**	
Bull Doesn't Survive Year 3 Median			**-5.9**	

Source: S&P Dow Jones Indices.

Ned Davis Research

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business optimism index having its largest monthly surge in November in the series' 50-year history.

With so much good news baked into market expectations, the risk is that the markets may not meet current lofty investor expectations and are more susceptible to a correction.

Why the Current Bull Market Should Continue

With the current cyclical bull market reaching its second anniversary last October, this occasion presents the opportunity to compare the current bull market to prior such markets and assess if it could continue into year three.

Among the 12 prior post-war cyclical bulls that lasted two years, seven have continued into year three, and the current bull market's two-year return of 60% is in line with the median return of 54% over the first two years for a bull market *(see chart "S&P 500 Index Performance in Year 3 of Cyclical Bull Markets" above)*. With the bull market drivers of AI adoption, disinflation, strong earnings growth, and a likely soft-landing economic outcome, the current bull market should have the fuel it needs to survive into year three. As the accompanying table shows, absent a Fed policy error, external shocks, or a hard landing, the path of least resistance is most likely a continuation of the bull market.

The median return of just over 13% for bull markets that survive year three, the 10% consensus return forecast for 2025, and the 9% median historical return during the first year of presidential terms combine to paint a picture that the coming year will be a positive one for stocks but relatively muted compared to the prior two years of +25% returns.

With favorable underlying economic conditions and continued positive investor sentiment, stocks should gain in the coming year. Though valuation complacency is a concern, stocks outside of the top 10 largest companies in the S&P 500 are more reasonably valued and should increasingly support returns in 2025 as their earnings growth closes the gap with that of the top 10 companies, which have driven the majority of returns over the past few years.

SUMMARY OF OUR 2025 OUTLOOK

- No recession with continued above-trend economic growth
- Continued progress on inflation towards the Fed's target
- Declining interest rates as the Fed continues to reduce rates
- Modest profit growth
- Positive returns for both stocks and bonds

ESTATE PLANNING GIVEN EXTRA AGILITY THANKS TO NEW OKLAHOMA ACT

Witnessing my 8-year-old daughter's remarkable progress with agility in gymnastics – her graceful twists, turns, and near-perfect back handspring – perhaps surprisingly brings to my mind recent changes brought on bylaw changes. The recent enactment of the Oklahoma Uniform Directed Trust Act has increased Oklahoma estate planning flexibility, bringing a dynamic shift to trust administration.

A New Era of Trust Administration

At the heart of this act lies the "directed trust." This type of trust allows the settlor (the person creating the trust) to appoint a "trust director," sometimes known as a trust protector or a trust adviser. Trust directors can be used for different purposes, including investment decisions on behalf of the trust. Oklahoma's act is evidence of the growing popularity of dividing trust management responsibilities among various parties.

This separation of duties between the trustee and another party offers several advantages:

Specialized Expertise: By appointing a trust director with specialized knowledge, such as a tax adviser, the trust can benefit from expert guidance tailored to specific needs. This is akin to a gymnast having a specialized coach for each apparatus, ensuring optimal performance in every area.

Madelaine Hawkins
CAP®
Vice President

Tailored Solutions: Directed trusts can be designed to meet various objectives, from asset protection to charitable giving. This flexibility allows individuals to create trusts that align precisely with their unique goals and circumstances.

Adaptability: The act enables the trust to evolve, accommodating changes in family dynamics, economic conditions, and legal requirements. This is like a gymnast continuously refining their routine to stay ahead of the competition.

The Benefits of a Flexible Approach

By embracing the flexibility offered by the Oklahoma Uniform Directed Trust Act, individuals can create estate plans that are:

Robust: The act provides a solid legal framework for trust administration, ensuring the trust's objectives are fulfilled.

Responsive: Adapting to changing circumstances allows the trust to remain relevant and effective.

Efficient: Separating duties between the trustee and a directed third party can streamline decision-making and improve overall performance.

Trust Company of Oklahoma: Your Partner in Estate Planning

By leveraging the power of the Oklahoma Uniform Directed Trust Act, you can create a legacy that stands the test of time. This innovative legislation empowers individuals to create highly customized trusts that can adapt to changing circumstances, much like a gymnast adjusts their routine to the demands of the competition.

Trust Company of Oklahoma is dedicated to assisting individuals and families through the intricacies of estate planning. With a deep understanding of the act, we can craft tailored trust solutions that align with your unique objectives. Our team comprises seasoned professionals, including Chartered Financial Analysts, Certified Financial Planners, CPAs, and attorneys, ready to address every facet of your trust's needs. However, we recognize the importance of flexibility. If you have existing relationships with other professionals, we're more than happy to collaborate and ensure a seamless integration of services.

Whether you're seeking to protect assets for future generations, provide financial support for loved ones, or establish a charitable legacy, our experienced team can help. We'll work closely with you to develop a comprehensive estate plan that is both flexible and durable, ensuring that your wishes are carried out with precision and care.

TRUST COMPANY OF OKLAHOMA TAX SCHEDULE

Approximate dates of availability for tax forms are:

Forms	1099-R	1099-Consolidated (Group 1)	1099-Consolidated (Group 2)	5498	2024 Tax Worksheets
Available online	Jan. 22	Feb. 7	Feb. 20	Feb. 20	Feb. 25
Sent by mail	Jan. 26	Feb. 12	Feb. 26	Feb. 26	

Trust Company of Oklahoma brokerage accounts receive a 1099-consolidated, which includes 1099-DIV, 1099-B, 1099-INT, 1099-OID, and 1099-MISC. They are produced in two separate groups, depending on the complexity of the portfolio.

ROTH CONVERSIONS: TRAVERSING THE PATH TO A TAX-FREE RETIREMENT

Recent legislative changes have significantly impacted IRA rules, making careful planning and expert guidance essential.

Sara Shaklee
CTFA
Assistant Vice President

Retirement. The word conjures images of leisurely days, endless travel, and the freedom to pursue long-held passions. However, the reality of planning for this pivotal life stage often falls far short of the idyllic picture. The actual exercise of retirement planning is a complex and nuanced endeavor, riddled with uncertainties that can make pinpointing the right strategy seem like navigating a dense fog rather than following a straightforward path.

One retirement planning strategy that has gained traction is the Roth conversion. While Roth conversions have been allowed for some individuals since the passage of the Taxpayer Relief Act of 1997, the prior income limitation of $100,000 was not eliminated until 2010, making Roth conversion benefits available to all IRA investors.

In an article in the October 2024 edition of Investment Perspectives, retirement plan expert Holly Ferguson explored various strategies for backdoor Roth conversions, offering guidance for individuals who still face income limitations that would otherwise prevent them from contributing directly to a Roth IRA or Roth 401(k) plan.

Understanding the Basics

Traditional IRAs, first introduced in 1974, provide a benefit by offering tax deductions on eligible contributions and a tax deferral until the withdrawal window begins. However, during retirement, nearly all withdrawals from a traditional IRA are subject to ordinary income tax, which could potentially increase your overall tax liability, especially when Required Minimum Distributions (RMDs) begin. The current age at which to start taking RMDs is 73.

On the other hand, Roth IRAs do not provide an upfront tax deduction on contributions, but qualified withdrawals in retirement are generally tax-free. A Roth conversion allows you to transfer cash or assets from a traditional IRA to a Roth IRA, changing the tax treatment of future earnings and distributions on converted amounts. While this strategy involves paying taxes on the converted amount in the tax year converted, it offers the potential for substantial tax savings during retirement, especially for those in higher tax brackets.

A New Landscape for Planning: The Secure Act and Secure Act 2.0

The Secure Act and its successor, the Secure Act 2.0, introduced two significant changes that impacted the administration of and planning around IRAs:

Delayed Required Minimum Distributions (RMDs): In 2019, the Secure Act initially increased the Required Beginning Date (RBD), more commonly known as the age to begin RMDs, from 70½ to 72. Then, when the Secure Act 2.0 passed in 2022, it offered another increase to the RBD to age 75 beginning in 2033. These delays give investors more time for their retirement savings to grow.

Inherited IRA Rules: The most significant change introduced by the Secure Act in 2019 materially altered the rules for inheriting IRAs, particularly for non-spouse beneficiaries. Before its enactment, many beneficiaries could stretch out RMDs over their lifespans, effectively extending the tax benefits of the IRA. The Secure Act introduced a 10-year rule for most non-spouse beneficiaries, requiring that the entire balance of an inherited IRA be withdrawn within 10 years of the original owner's death. This 10-year rule eliminated the "stretch IRA" strategy for most non-spouse beneficiaries, potentially resulting in higher tax burdens and forcing them to withdraw taxable distributions more quickly than the original owner planned. Secure 2.0 and subsequent guidance from the IRS carved out exceptions for younger spouses, minor children, and disabled beneficiaries to mitigate the impact of these sweeping changes.

With these new rules in place, the Secure Act and Secure Act 2.0 have significantly reshaped the landscape of IRA planning. Consequently, individuals should revisit their retirement and estate plans to assess how these changes may impact their retirement planning and wealth-transfer strategies involving IRAs.

Roth Conversions: Is This Strategy Right for Me?

Retirement planning is a multifaceted journey, and achieving a secure and fulfilling future requires careful consideration of various factors.

Roth conversions offer one path to unlocking tax-free growth and withdrawals in retirement. Understanding the intricacies of Roth conversions in a post-Secure Act world is crucial. They involve immediate tax consequences and may add another layer of complexity due to the possible impact on Medicare premiums and Social Security.

If you are considering a Roth conversion strategy as part of your retirement or estate plan, it is essential to seek guidance from a qualified adviser.

Your TCO or tax adviser can play a vital role in this process. Analyzing a Roth conversion's potential benefits and drawbacks can help you develop a tailored plan that complements your retirement or estate planning needs. Whether your goal is maximizing tax-free income in retirement, minimizing future tax burdens on withdrawals, or ensuring a more secure financial future for your loved ones, do not embark on this journey alone. Your TCO or tax adviser will support and empower you to navigate the post-Secure Act landscape to confidently evaluate and implement Roth conversion strategies, increasing your chances of achieving a secure and fulfilling retirement with a lower tax burden.

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FORWARDING SERVICE REQUESTED

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